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1. ES/ER- Please log ltr & cy p45-6.
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Have cy p45-6. Thanks DG

Admiral B. R. Inman
Deputy Director of Central Intelligence
Central Intelligence Agency
Washington, D.C. - 20505

Dear Admiral Inman:

Please find enclosed the published text of your address to the American Defense Preparedness Association Breakfast Meeting of November 18, 1981.

You kindly read the original manuscript which was duly annotated. The text begins on Page 45. I regret its somewhat belated appearance but I have no say regarding publication datings.

Sincerely yours,

Paul A. Chadwell

Paul A. Chadwell
Contributing Editor

Enclsoure:
NATIONAL DEFENSE JOURNAL
for February 1982

May I have this?
Many thanks
Chuck

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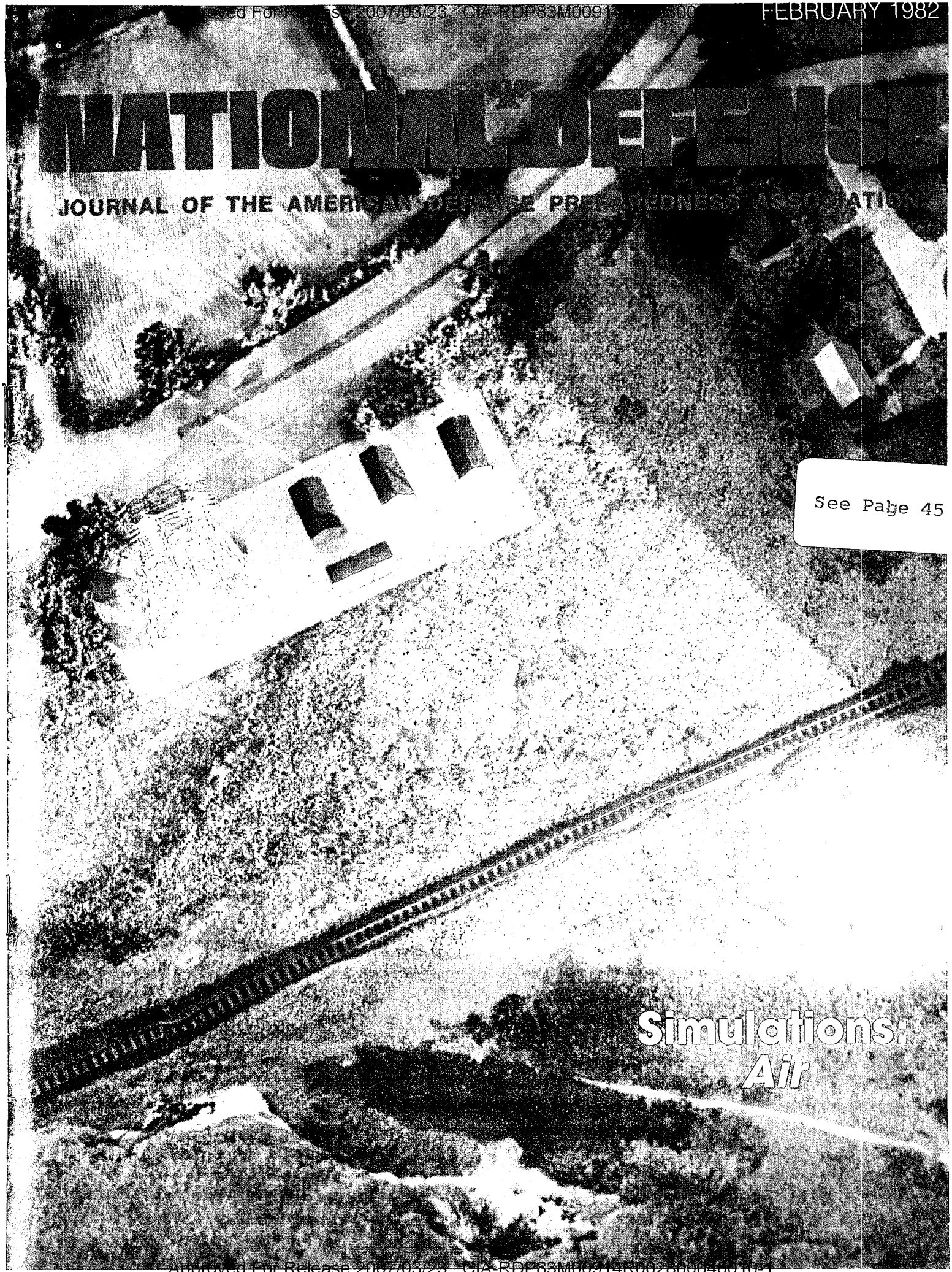

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Simulations: Air

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the "Reason to Know" clause which has made senior company executives responsible for the actions of minor subordinates and thus hindered the operations of U.S. companies abroad.

As regards government financing, goals have become increasingly difficult to attain because of the budget battle which began in August and involved decisions on costs and deployment expenses for MX, budget decisions relating to B-1 and Stealth, and the AWACS sale. These problems, plus the Sadat assassination, have combined to complicate a mixture of defense and foreign policy issues and associated budget considerations. Budget cuts may be increased, and the possibility of some decrease in defense outlays clash with the prospects for continuing cost escalations. Concurrently increasing crisis-management costs and contracting revenues, stemming from a recession-prone economy, also add to financial problems. This does not, however, signify that the defense budget battle has been lost in view of the Congressional provisions of last spring for a $1.6 trillion increase in defense outlays in the next 5 years. This increase is of such magnitude that even with prospective budget cuts by the Congress, we will be experiencing a 7 per cent real rate of growth in defense expenditures over the next several years. Thus, the real issue in terms of defense spending will not be "how much" but, rather, "how?"

Though budget problems will limit actual defense outlays to some extent, according to Senator Grassley, the President nevertheless recognizes the need for long term weapons planning without freezing development results to the degree that new systems become obsolete before they can be deployed. In particular, resolving the "pipeline problem" necessitates stipulations that regulations which have impeded the development of new weapons systems be eliminated.

Conventional readiness must also be emphasized, particularly as this sector can become an easy target for budget cutting.

Deputy CIA Director Addresses November Breakfast Meeting

Admiral B. R. Inman, USN, Deputy Director of the CIA, addressed the November 17, 1981 A.D.P.A. Breakfast Meeting at the Key Bridge Marriott on "The State of U.S. Intelligence."

Admiral Inman began his presentation by giving us an historical synopsis of the development of U.S. intelligence gathering efforts. Our country began collecting intelligence information in peacetime almost 100 years ago with the founding of the Office of Naval Intelligence in March 1882. This is the oldest continuous intelligence gathering organization that we possess. Esentially, our broader intelligence collection efforts began in World War I but, upon termination of that conflict, the bulk of our activities again ceased although the War Department and the Navy picked up some of the pieces. It was this residual capability that enabled us to break the Japanese code.

Admiral B. R. Inman, USN

The end of WW II brought about a whole new perspective regarding the value of being involved in intelligence and led to our retention, in peacetime, of organizations that could answer the question: "What might we need to know?" There were initial decisions regarding the FBI and its mission to sustain domestic activity and the need to assign foreign intelligence work elsewhere. Intelligence responsibilities were furthered by the Korean War in the 1950's which also triggered the effort to assemble encyclopedic data about countries throughout the world, because of the realization that full knowledge about foreign countries, their cultures and economies is as needful as is basic information about their fighting capabilities. During the 1950's, there was a great surge in our technological information gathering capabilities as exemplified by the development of the U-2 aircraft which, for the first time, enabled us to examine closed societies. In retrospect, a key failure of that time was not establishing guidelines for protecting American citizens' interests which would govern the conduct of business by the intelligence community.

However, in the 1960's, the intelligence community was beset by the same problems as the U.S. military community because the key question became not what we might need to know but were our operations "cost effective?" If there has ever been a type of organization that is *not* cost effective it is intelligence because logical conclusions depend upon assumptions that can be brought to bear on many bits of information and the cost of procuring them escalates with the number of facts that can be obtained.

Also, in the 1960's, the Vietnam War added to the then existing complexities of gathering information because it diverted resources from the basic task of assembling encyclopedic intelligence knowledge. In 1967, problems were compounded because of adverse U.S. balance of payments considerations. Consequently, the questions then became "What can you do without?" "How do you reduce the American presence abroad?" Subsequently, in 1971, the problem was accentuated by "How can you pay for great new technological advances?" And the answer was "Give up manpower," a tenet which, by definition, again struck at the need to assemble the "bits and pieces" noted earlier. One sequel to dissipating our intelligence was our failure to predict the 1973 Arab-Israeli conflict.

In general, in the 1970–75 time frame, there was focus on lessened intelligence because of expenditure ceilings set by OMB (Office of Management and Budget) and this was paralleled by failure to think about what kind of challenges would affect U.S. interests up to 10 years beyond.

In Admiral Inman's judgment, the real impact of the investigations of past U.S. intelligence performance during the mid-1970's was the failure to assess the consequences of the draw-down of manpower and spending power. There was no mood at the time to point the direction that should be taken but rather of regulation of what you were doing. Added to this were pressures from the Congress pursuing the question of what we could do without. The over-all approach was to centralize the whole review of the investment that you could afford in the intelligence area and to let OMB set the pace by providing, at the outset, a dollar ceiling against which you would decide how much you could afford to spend.

With specific reference to CIA, some assumptions were made about what might happen: assumptions that you might have a more peaceful century as you progressed into the final decades of the 20th century Major

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investments were made, primarily to monitor arms-control treaties which turned out to be highly beneficial to the U.S. Because by the same token that enables you to verify treaties, you can derive a margin of confidence that you will not be surprised by a major adversary in a Pearl Harbor type attack. In terms of long run assessments, coupled with what you could do without, the policy led to steadily diminishing activity because of cost considerations alone. This had a major impact in terms of human collection and the analytical assessment of such efforts for large areas of the world, and the results were surprises in Iran, Nicaragua and Afghanistan. The travail of the Congressional investigations in 1975–76 brought some benefits in that a new look was taken at the intelligence problem and it became apparent that the CIA, and the U.S. intelligence community generally, had no sponsors. The establishment of two permanent select committees in the Congress for purposes of oversight, after the earlier phase which sometimes seemed like an inquisition, created a constitutency for quality intelligence.

In the future, we must recognize unequivocally that there must be both people and dollars to improve our intelligence gathering capabilities back to the point that we fulfill the requirements in terms of what might we need to know and not in terms of what we can do without. We must have regulations to the degree that those who perform for us in the intelligence field will know the standards to which they will be held accountable for 10, 20, and 30 years hence. But we will also have to match this accountability with effective checks and balances and that's taking advantage of what we now have, in the Congress, in terms of the proper mechanism for classified oversight. You cannot count on public discussions as the medium for providing effective oversight because the intelligence community can never respond to public inquiry without revealing essential elements of classified information. The principle that you can reveal examples of what foreign intelligence agencies have passed on to you is ludicrous unless you wanted to make sure that they will never do business with you again.

Fortunately, the mechanism is now in place to assure that bipartisan committees of the Senate and the House will oversee intelligence interests without compromising essential information. For several years, Admiral Inman has watched a very large spectrum of Congressional people who have approached oversight with a bipartisan view; there is no reward for those, so concerned, in terms of appreciation from their home constituencies nor, indeed, can they disclose the nature of their work to their political benefit. They have passed over several opportunities to make headlines and have continued to provide cogent advice as to how the Administration should go about its intelligence operations. We need to place great reliance upon such interpretations and get on with excluding provisions of the Freedom of Information Act for the Intelligence Community. We need laws to ensure that we do not give a license to U.S. citizens or organizations to publicly work for the destruction of the U.S. intelligence setup, and certainly not to collaborate with foreign intelligence organizations in the process. We have to get back to having the intelligence organizations that can provide this country with first class intelligence.

Congressional Hearings on Defense Industry

The Monetary and Fiscal Subcommittee of the Congressional Joint Economic Committee initiated in the late fall of 1981 a series of hearings covering problems affecting the surge potential of the U.S. defense industry. The series of hearings is designed to find ways to insure American industry's ability to manufacture critical products in a time of war, in volume, without simply adding to the size of the defense budget.

Elmer L. Kuhlman (shown here with Mrs. Kuhlman) of Honeywell, Inc., received the A.D.P.A. Bronze Medallion for his outstanding service as Packaging, Handling, and Transportability vice chairman from 1973 to 1975 and as chairman from 1975 to 1981. The award was presented during the division meeting at Philadelphia, Pa. on October 21, 1981.

In the first session of the series, all to be chaired by Senator Roger W. Jepsen (R-Iowa), the committee heard witnesses for the forgings and castings industry who discussed the reduced size of this industry and the attendant delays in deliveries.

The following testified: Ian Westwood-Booth, President, Midvale Co., Philadelphia; John E. Fogarty, President, Standard Steel Co., Burnham, PA; Ray Walk, Executive Vice President, Rayan Associates, Inc., Park Ridge, IL; Larry French, President, National Steel and Shipbuilding Co., San Diego, CA; J. Moran, Chairman of the Board, The Carlton Machine Tool Co., Cincinnati, OH; and Joseph B. Ryan, Jr., President, Delavan Corporation, West Des Moines, IA.

In his opening remarks, Senator Jepsen emphasized that the erosion of the U.S. industrial base and its detrimental effects on our ability to surge defense production under mobilization conditions has caused our country increasing concern over the past several years. Fortunately, awareness of the problem is growing. For example, during November 1980, the House Armed Services Committee held a series of hearings dealing with this very critical issue. In the report* covering the 1980 hearings, the committee stated: "As the investigation proceeded, a shocking picture emerged: The picture of an industrial base crippled by declining productivity growth, aging facilities and machinery, shortages in critical materials, increasing lead-times, skilled labor shortages, inflexible government contracting procedures, inadequate defense budgets, and burdensome government regulations and paperwork."

Among the key comments made: Money spent on mergers provides horizontal growth for U.S. industry as a whole instead of supplying the needed vertical growth which would be achieved if profits were spent on research, product development, outlays for new production facilities, and new market approaches. The lack of vertical growth is chronically harmful to U.S. industrial progress.

Some foundries have been the scapegoat of EPA because of their inability to carry the financial burdens required to meet that agency's stan-

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* U.S. Congress, House of Representatives, *The Ailing Defense Industrial Base: Unready for Crisis.* Report of the Defense Panel of the Committee on Armed Services, 96th Congress, 2nd Session, 1980. Chaired by Richard Ichord.

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